# Minnesota Public Utilities Commission

***Staff Briefing Papers***

Meeting Date: March 6**,** 2014 ............................................... Agenda Item # ***6**_____

Company: Northern States Power Company d/b/a Xcel Energy

Docket No. E-002/GR-10-971

In the Matter of the Application of Northern States Power Company, a Minnesota Corporation, for Authority to Increase Rates for Electric Service in Minnesota

Issue(s): Should the Commission accept the Annual Report as demonstrating compliance with the Net Operating Loss Agreement?

Should the Commission approve the proposed customer refund of the revenue requirement value associated with the actual 2012 utilization of the Deferred Tax Asset balance?

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***Relevant Documents***

Xcel Compliance Filing ......................................................................... May 31, 2013
Department Comments ......................................................................... July 31, 2013
Xcel Reply Comments ........................................................................ February 12, 2014

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February 27, 2014

## *Statement of the Issue*

Should the Commission accept the Annual Report as demonstrating compliance with the Net Operating Loss (NOL) Agreement?

Should the Commission approve the proposed customer refund of the revenue requirement value associated with the actual 2012 utilization of the Deferred Tax Asset (DTA) balance?

## *Background*

During the evidentiary hearing in Xcel's general rate case (10-971), the Company and the Department reached an agreement regarding how the tax benefit resulting from the NOL caused by bonus depreciation would be captured for ratepayers. That agreement was memorialized in Hearing Exhibit 105 - Tax Normalization and Allowance for Net Operating Losses which provided (in part):

> The Company agrees with the alternative proposal of Ms. Campbell that it will refund to customers the revenue requirements associated with the consumption of the deferred tax asset that is estimated to return approximately $60 million in aggregate revenue requirements to customers, over the period from 2012-2015. The amount and timing of the return will be trued up to actual results; any change in the total amount will be subject to Commission approval.

The Commission provided in ordering paragraph 11 of its May 14, 2012 FINDINGS OF FACT, CONCLUSIONS, AND ORDER in Docket No. E-002/GR-10-971 that:

> The Company shall establish a reporting and tracker mechanism for the deferred taxes generated by the bonus depreciation established at the time of this rate case filing. The Company shall make an annual filing detailing its utilization of the tax benefit until the tax benefit is fully realized.

On May 31, 2013, Xcel made its second compliance filing. The Company requested acceptance of its annual report and approval of it proposed customer refund plan which would refund approximately $4 million.

On July 31, 2013, the Department filed comments recommending approval with modifications.

On February 12, 2014, Xcel filed reply comments stating that the Company agrees with the Department's recommended assignment of the refund amount to customer class, which is consistent with how taxes were handled in its most recent rate case, and which better matches costs and revenues; and the Department now agrees that use of the Company's actual ROR, as reported in its Jurisdictional Annual Report, better represents the Company's actual debt interest tax deduction, is consistent with the Settlement, and results in only a slight timing difference on when dollars are refunded to customers.

***Party Positions***

**Xcel Filing**

Xcel stated that under the NOL Agreement, as the Minnesota retail electric jurisdiction has positive taxable income it is required to track and return to customers the revenue requirement reduction associated with the utilization of the DTA. The DTA balance related to the Company's NOL tax position and unused Production Tax Credits (PTC) at the end of 2011 was $267 million and $215 million at the end of 2012.

According to the Company, the cumulative NOL through December 31, 2011 caused $588.7 million of deductions to be carried-forward to a future period, resulting in a DTA of $240.2 million. In addition, $27.1 million of PTCs could not be utilized, resulting in a total DTA of $267.3 million at the end of 2011.

The Company stated that it files its annual tax return in September for the previous year, and updates the balances in the DTA Tracker to reflect any changes resulting from the tax return. In total, it used $173.6 million in deductions in 2012. This total is made up of:

- $73.7 million of deductions stemming from taking advantage of a tax provision included in Code Section 172(f) that allowed deductions incurred in 2010 and 2011 to be carried-back to prior years. This reduces the NOL carry-forward, and increases the customer refund by $1.794 million; and

- With respect to 2012 current-year activity, the Company had positive taxable income to support the use of $99.9 million in deductions that were carried forward from prior periods. This reduces the NOL carryforward, and increases the customer refund by $3.299 million. Due to prioritization of deduction utilization before credit utilization, an additional $18.5 million of Production Tax Credits were deferred and carried forward to future periods. This decreases the customer refund by $1.104 million.

The net utilization resulting from this 2012 DTA activity created a customer refund obligation of $3.989 million,

Pending 2013 Test-Year Rate Case (12-961)

The Company stated it included a revenue requirement reduction of $4.2 million in its proposed 2013 test year COSS, which was based on its estimated NOL/DTA utilization, assuming recovery of its initially-requested revenue deficiency. Xcel reduced its estimated NOL/DTA utilization downward by $1.4 million to $2.8 million based on its hearing position in the case. If the final approved COSS in the pending case includes a different level of revenue requirement benefit, Xcel stated it will incorporate a corresponding adjustment to the DTA Tracker for the amount included in final base rates, which will serve to reduce future customer refund amounts.[1]

Projected Utilization

Xcel stated its current projections have the NOL-related DTA balance reaching a maximum level of $299.7 million at the end of 2013, which it projects will be reduced to zero through utilization over the 2014-2016 period. The forecast is based on the assumption that the company has revenues adequate to earn its last authorized return, and that no new bonus tax depreciation provisions or other tax incentives are enacted. Utilization timing will vary with the actual realized financial results.

The Company noted that its projected cumulative revenue requirement reduction, and therefore customer refund obligation, associated with the full utilization of the DTA balance for the period 2012-2017 is approximately $75 million. The level and timing of this balance utilization will continue to vary as the components of taxable income change over time.

Proposed Refund Method

The Company proposed that $3,989,000 be refunded to customers through one time bill credits, with interest accrued at the Prime Rate beginning with May 1, 2013, the date on which it submitted its Minnesota Electric Jurisdictional Report that identified the refund obligation. Xcel proposed that the refund be based on 2012 customer usage, the same method that has been approved by the Commission in its recent Incentive Compensation refund. Xcel stated it will begin applying credits to all active accounts within 90 days of receipt of the Commission's Order approving the refund plan in this docket. The Company stated it will file a compliance report summarizing the results of the customer refund within 30 days of completing the refund process. The refund amount for a typical residential electric customer will be approximately $1.40, plus interest, based on average monthly usage of 675 kWh.

**Department Comments**

According to the Department, the Company provided, on pages 3 to 4 of its petition, the compliance information required by the NOL Agreement approved by the Commission. The Department stated it reviewed this compliance information and concluded that the *Annual Compliance Report* is generally complete and the amounts included are reasonable, except for the rate of return.

Based on its review, the Department stated it considers the Company's summary of the 2012 NOL actual activity, which resulted in a $3.989 million refund to customers, to be reasonable.

The Company noted that their projections for the NOL-related DTA factored in the 2013 tax

[1] The revenue requirement reduction based on the Commission's decision in the 12-961 rate case was $3.145 million.

legislation, which passed at the beginning of 2013, and extends the bonus tax depreciation provisions on qualifying investments. As a result, the balance available for future use is expected to increase in 2013. The Department stated it considers the NOL-related DTA balance and proposed use to be reasonable based on information available at this time.

The Company has projected its cumulative revenue requirement reduction and customer refund obligation associated with the full use of the DTA balance for the period 2013- 2017[2] as approximately $75 million. Based on its review of the information available at this time, the Department stated it considers the estimated total DTA tax refund obligation and estimated DTA use to be reasonable.

In response to DOC information request number 1197, Xcel provided a reproduction of Attachment B of the Company's petition with formulas added to document the calculation included in the spreadsheet. The Department recommended that the Commission require Xcel to include the formulas in future Annual Compliance Reports.

Rate of Return

The Department stated it had one concern regarding the rate of return. The Department asked the Company in DOC information request 1197 to explain why it is reasonable to use the Composite Cost of Capital of 8.08% as shown on Attachment B, NOL/DTA Return to Customer Estimate instead of the Commission-approved authorized rate of return of 8.31% established in Docket No. E002/GR-10-971. The Company provided the following response:

> We use the Composite Cost of Capital of 8.08% in compliance with the Agreement between the Company and the Department for treatment of net operating losses that was accepted by the Commission and included in its May 14, 2012 FINDINGS OF FACT, CONCLUSIONS, AND ORDER in this docket. The Agreement calls for a May 31 Compliance Report and refund determination (if any) based on the actual results as reported in the Company's Annual Jurisdictional Report filed with the Department and the Commission each May 1. The COSS supporting this report incorporates actual revenues, costs and rate base components. It also incorporates actual cost of debt and capitalization ratios. The ROE used to determine the indicated revenue deficiency is the Company's last authorized ROE level. The capital cost rates and ratios as incorporated into the May 1 Jurisdictional Annual Report COSS are as follows:

[2] The Department noted the refund period of 2013 to 2017 lags the actual tax use period of 2012 to 2016 by one year due to the May 1 reporting following the tax year that the DTA use actually occurs.

| **Capital Structure** | **Rate** | **Ratio** | **Weighted Cost** |
|---|---|---|---|
| Long Term Debt | 5.7072% | 45.3838% | 2.5900% |
| Short Term Debt | 0.9830% | 1.8365% | 0.0200% |
| Preferred Stock | 0.0000% | 0.0000% | 0.0000% |
| Common Equity | 10.3700% | 52.7797% | 5.4700% |
| **Required Rate of Return** | | | 8.0800% |

The Department stated while it expected the Company to update the tax-related numbers including the DTA amounts and the DTA use amounts for current and future years based on the May 1 Annual Jurisdictional Report, it did not expect the Company to adjust the authorized rate of return to the May 1 Annual Jurisdictional Report. Using a lower rate of return, as proposed by the Company, decreases the refund for consumers.

The Department stated there does not appear to be any language in the NOL Agreement that supports trueing up the rate of return as suggested by the Company. The Department argued that it does not consider it appropriate to true-up the rate of return outside of a rate case based on an unaudited figure. The DOC stated it is not aware of any past refunds or dockets where a utility has been allowed to update the rate of return outside of a rate case. Finally, it is not feasible to perform the same detailed review as is done in the Company's rate cases of every May 1 Annual Jurisdictional Report during the period where the NOL amounts will be returned to ratepayers. As a result, the Department recommended that the Commission require the Company to use the rate of return of 8.31% as authorized in the 2010 rate case, instead of the Company's proposed 8.08%.

Pending 2013 Test Year Rate Case

The Company included a revenue requirement reduction of $4.2 million in its proposed 2013 test year which was reduced to $2.8 million. The Department stated it considers the adjustment or true-up to the DTA Tracker to basically reflect actual amounts to be reasonable and consistent with the NOL Agreement

Customer Refund Proposal

The Department asked the Company in IR 1196 to compare the allocation of the NOL tax refund to customer classes using 1) the Company's proposed method of 2012 customer sales, and 2) the Department's alternative method used in Docket No. E002/GR-10-971 for purposes of recovery of the deferred tax assets and liabilities using a rate base method. The Company indicated in its response to DOC Information Request 1196 that the customer sales method was proposed for its ease of understanding and administrative efficiency.

Based on its review of the Company's response to DOC Information Request 1196, the Department recommended that the Commission require the Company to use the rate base method for allocating the NOL tax refund to customer classes. The Department supports the rate base method for refunding to classes since it is more consistent with the way the recovery of deferred tax assets and liabilities was handled in the E002/GR-10-971 rate case; therefore, the rate base method provides a better matching of costs and revenues. Further, a more accurate and consistent refunding method is very important in light of the expected $75 million total DTA/NOL tax refunds expected for the period 2013 to 2017.

Recommendations

The Department recommended that the Commission:

- Require Xcel to use the Commission’s authorized rate of return of 8.31% instead of the Company-proposed 8.08%.
- Require the Company for the next Annual Compliance Report to include formulas for Attachment B, consistent with what the Company provided in its Attachment 1 in response to DOC information request number 1197.
- Approve the rate base allocation method for assigning the NOL refunds to customer classes.
- Accept the Company’s refund plan, with the modifications recommended by the Department.

**Xcel Reply**

Xcel stated that the Company and the Department are now in agreement on the two issues raised by the Department in their July 31, 2013 Comments. Xcel agrees with the Department’s recommended assignment of the refund amount to customer class and the Department now agrees that use of the Company’s actual ROR, as reported in its Jurisdictional Annual Report, better represents the Company’s actual debt interest tax deduction.

According to the Company, in 2012 it was able to achieve a lower cost of debt compared to the weighted cost included in its last authorized ROR. This reduction in debt interest expense reduced the level of tax deductions, allowing the Company to utilize a larger portion of the tax depreciation deductions carried forward from prior periods to offset the reduced level of debt interest expense deduction. A larger utilization creates a larger refund to customers. Specifically, its lower actual ROR that is the result of its lower cost of debt in 2012 increases the NOL refund to customers by approximately $465,000.

The Company argued that the NOL Agreement contemplated that it would apply all actual results to the DTA and NOL calculations to calculate the amount due to customers. The use of selected actual amounts as suggested by the Department would not accurately reflect the Company’s utilization of previously carried forward deductions, as the debt interest deduction would be based on previously established amounts for use in a projected test year rate case, rather than actual interest deductions.

The NOL Agreement states that the Company will “refund to customers the revenue requirements associated with the consumption of the DTA that is estimated to return approximately $60 million in aggregate revenue requirements to customers” over the 2012-2015 period. It goes on to state that:

> The amount and timing of the return will be trued up to **actual results**; any change in the total amount will be subject to Commission approval. [Emphasis added]

The ROR is an essential component to calculating the Company's actual DTA, and therefore, its actual NOL utilization. Xcel stated that if it used its last approved ROR instead of its actual ROR, the level of interest expense used to determine taxable income would not reflect actual interest costs and, as a result, the level of deductions carried forward from previous years that can be consumed in the current period would be misstated.

According to the Company, its last authorized cost of capital was 8.32 percent. Its actual 2012 cost of capital as reported in the 2012 Jurisdictional Annual Report was 8.08 percent. The primary difference between these two amounts is due to the Company's ability to reduce its weighted cost of debt on an actual basis. The weighted cost components for each of these two capital structures are shown on Attachment A of the reply comments.

The reduced debt costs resulted in a higher level of previously deferred deductions that could be utilized. As calculated in the Cost of Service Study, the debt interest expense using the 2012 last authorized cost of capital was $174.8 million. The interest expense reported in the 2012 Jurisdictional Annual Report was $158.9 million based on the actual 2012 cost of capital. Because of the reduced interest expense realized on an actual basis, the Company was able to utilize an additional $15.9 million in previously deferred deductions.

As a result of this additional utilization, deferred tax expense was increased by the composite tax rate times this amount. This caused the ending balance in accumulated deferred taxes to increase by the amount of deferred tax expense and average rate base to decrease by 50 percent of the deferred tax expense. Ultimately, the reduction in rate base caused by this additional utilization caused a decrease in revenue requirements when compared to the same calculations using the last authorized cost of capital.

Xcel stated that as illustrated on Attachment B, if the Company were required to use its last authorized weighted cost of debt in this analysis, fewer deductions could be utilized from prior periods for purposes of this calculation, resulting in a reduction to the Company's refund liability of $465,000 – and the customer refund would no longer be based on the Company's actual results.

Xcel requested that the Commission:

- Accept the supplemental information contained in this Reply, and clarify that the Company should use its actual ROR from its May 1 Jurisdictional Annual Reports in preparing its Annual NOL Reports;

- Approve its proposed customer refund of $3.989 million, which is based on our 2012 actual results from its May 1, 2013 Jurisdictional Annual Report;

- Require the refunds be provided to customers in accordance with its proposed Refund Plan, but using the rate base allocation method of assigning refund amounts to customer classes, as recommended by the Department; and

- Require the Company to include with its future Annual Reports, the formulas it uses in its Attachment containing the supporting calculations, as also recommended by the Department.

***Staff Analysis***

In its compliance filing, Xcel stated it would be happy to consider and work with interested parties on a plan to net the NOL refund and RES surcharge (Docket 13-475) to smooth the rate impact to customers. The Department commented on the suggestion. Staff did not include information on the suggestion because the Commission rejected the idea in its November 7, 2013 ORDER APPROVING PRODUCTION TAX CREDIT TRUE-UP in Docket No. E-002/M-13-475 where it stated in Ordering paragraph 1.C:

> The Production Tax Credit true-up amounts to be recovered shall not be netted with the May 31, 2013 Net Operating Loss/Deferred Tax Asset refund amounts related to the settlement from Xcel's 2010 rate case (Docket No. E-002/GR-10-971).

NOL Filing and Utilization

In the Department's initial comments, it argued that the Commission authorized rate of return (ROR) is the ROR that should be used in determining the amount to be refunded. According to the Department there does not appear to be any language that supports trueing up the rate of return as suggested by the Company. Further, the Department argued that it does not consider it appropriate to true-up the rate of return outside of the Company's rate case based on an unaudited figure. Moreover, the DOC is not aware of any past refunds or dockets where a utility has been allowed to update the rate of return outside of a rate case. Finally, the Department is concerned because it is not feasible to perform the same detailed review as is done in the Company's rate cases of every May 1 Jurisdictional Annual Report (JAR) during the period where the NOL amounts will be returned to ratepayers.

The Company argued that the NOL Agreement contemplated that it would apply all actual results to the DTA and NOL calculations to calculate the amount due to customers. Using only a portion, or subset, of its actual results in these calculations would result in an inaccurate representation of the Company's DTA balance and NOL utilization – and ultimately, an inaccurate refund/return of the revenue requirements that result from this utilization.

There are two places in the NOL Agreement that state amounts shall be trued up for actual results (in the May 1 Report for the Minnesota Electric jurisdiction). However, the amount of the NOL and the timing of the refund to ratepayers were estimated for the Agreement in the rate case. These statements in the Agreement about truing up appear to refer to truing up the estimates in the rate case to the actual timing of the refund and the amount of NOL.

The third paragraph of the agreement is one of the two places which states: “The amount and timing of the return will be trued up to actual results; any change in the total amount will be subject to Commission approval.” The Company is basing its argument that the ROR from the JAR should be used on that statement.

The agreement was reached between the Company and the Department. The Department did not interpret the agreement to provide for updating the ROR. The two statements about truing up do not appear to provide for the update to occur. However, the fifth bullet point in the agreement starts “The compliance report shall be based upon the Company's annual report filed with the Department of Commerce and the Commission each May 1.” This statement could be interpreted to allow the use of the ROR from the JAR.

The rate case rate of return included a weighted cost of debt of 2.87% and the JAR weighted cost of debt was 2.61%. A higher the cost of debt results in a higher amount of interest expense. Because interest expense is deducted in determining taxable income, the higher the interest expense, the lower the resulting taxable income will be. The NOL is offset against the taxable income until it reaches zero. Therefore, the higher the taxable income is, the larger the amount of carried over NOL that can be used in that year.

According to the Company, if the rate case ROR was used the refund would be $3,524,000 or $465,000 less than the proposed refund of $3,989,000 based on the JAR ROR. That difference is the result of higher debt costs in the rate case ROR. However, if the Commission were to order use of the rate case ROR, the $465,000 is not forfeited. This is a matter of timing. The refund calculation does not change the overall amount that will be refunded because of the NOL. If the smaller amount is refunded here, the $465,000 is not lost but will be refunded in the future as the Company has taxable income.

For ratemaking purposes, the Commission has generally used the most recent rate case ROR. Based on that practice, the Commission could determine that the rate case ROR should be used in this calculation.

For tax purposes, the actual interest expense is used to determine taxable income. Because the Deferred Tax Asset (DTA) is trued up with the tax return, it could be determined, in this limited instance that using the JAR ROR is more consistent with what is happening on the tax return.

Allocation of the refund to customer classes

There are two proposals for the allocation: base it on sales or base it on rate base allocated to each class. DOC Attachment IR 1196, attachment A shows the refund to the various customer classes under both methods. Staff believes that the Department proposal to base the allocation on rate base makes the most sense in this instance. The refund is the result of absorption of the NOL which resulted from the 50% and 100% bonus depreciation of allowable plant. Because rate base is comprised mainly of plant it seems reasonable to make the refund proportionately to the customers who are being charged the cost of that plant which was the source of the refund.

***Decision Alternatives***

Rate of Return used for Refund Calculation

1. Require Xcel to use the Commission's authorized rate of return of 8.31%.

2. Allow the Company to use its actual ROR from its May 1 Jurisdictional Annual Reports in preparing its Annual NOL Reports.

Customer Refund

3. Accept the Company's refund plan and approve a customer refund of $3,524,000. (Do this if approve alternative 1)

4. Accept the Company's refund plan and approve a customer refund of $3,989,000. (Do this if approve alternative 2)

Allocation of NOL Refunds to Customer Classes

5. Determine that the rate base allocation method should be used for assigning the NOL refunds to customer classes.

6. Determine that customer sales should be used for assigning the NOL refunds to customer classes.

Other

7. Accept the reply comments filed beyond the 10 day reply period.

8. Require the Company to include with its future Annual Reports, the formulas it uses in its Attachment containing the supporting calculations as recommended by the Department.

9. Require the Company to file a compliance report summarizing the results of the customer refund within 30 days of completing the refund process.

***Recommendation***

Staff recommends 2, 4, 5, 7, 8 and 9

**Tax Normalization and Allowance for Net Operating Losses**

This statement reflects the Company's agreement regarding Net Operating Losses (NOLs) which was discussed in the Rebuttal Testimony of Mr. Jeffrey C. Robinson and reflected in the Rebuttal Testimony and Schedules of Ms. Anne E. Heuer and in the Surrebuttal Testimony of Ms. Nancy Campbell.

The Company agrees to exclude from the revenue requirements from the 2011 test year deficiency, its updated request associated with the additional bonus tax depreciation and net operating loss included as a part of Rebuttal Testimony (Exhibit___(AEH-2), Schedule 5a, page 1 of 3, columns 9, 10 and 11 and Exhibit___(AEH-2), Schedule 5b, page 3 of 4, columns 29, 30 and 31). The effect of this exclusion on the 2011 test year is a decrease in revenue requirements of approximately $1.7 million.

The Company agrees with the alternative proposal of Ms. Campbell that it will refund to customers the revenue requirements associated with the consumption of the deferred tax asset that is estimated to return approximately $60 million in aggregate revenue requirements to customers, over the period from 2012-2015. The amount and timing of the return will be trued up to actual results; any change in the total amount will be subject to Commission approval. To implement this proposal, the Company shall do the following:

- Begin reflecting in our 2011 Minnesota jurisdictional annual report (filed on May 1st, 2012), a deferred tax asset estimated to be $197 million at the end of 2011 based on the test year amounts as shown on Mr. Robinson's Schedules 4 and 5, page 2 of 4, lines 29 and 30, which amount shall be trued up for actual results in the May 1 Report for the Minnesota Electric jurisdiction.
- Establish a regulatory liability on the Company's books each year, beginning in 2012, for the revenue requirements associated with the consumption of the deferred tax asset that is projected to occur in that year, based on the budget data included in the jurisdictional annual report in order to ensure that these amounts are reflected as being owed to customers as they are consumed.
- Provide that this agreement extends through all future periods until such time as the deferred tax asset is fully consumed and the total aggregate revenue requirements associated with the consumption are returned either as a refund or a reduction to customer rates.
- File on May 31 of each year, until such time that the deferred tax asset balance is fully reversed, a compliance report of the 1) deferred tax asset associated with the unused tax deductions and production tax credit (PTC) carry forward balances; 2) the deferred tax liability associated with the year by year net change in bonus tax depreciation as provided by the December 2010 tax law change; and, 3) the revenue requirement effect of the actual utilization of the balances listed in 1 and 2 above. The projected cumulative revenue requirement established in the 2011 rate case test year is approximately $60 million through the year 2015.
- The compliance report shall be based upon the Company's annual report filed with the Department of Commerce and the Commission each May 1 and shall, if

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applicable, include a proposed refund plan to return to ratepayers the revenue requirement effect associated with the utilization of these deferred tax benefits. If there is not a refund required for any year, the Company must clearly explain why this occurred, and explain any changes in the amounts estimated in Mr. Robinson's Rebuttal Testimony on page 17, Table 3 which identified the $58.2 million in total (and as shown on Xcel Energy's Attachment 1 of approximately $60 million in total) along with estimated annual amounts to be given back to ratepayers over the period 2012 to 2015.

The Company's agreement also reflects the fact that the Department of Commerce has had more opportunity to review Xcel Energy's calculations of the adjustment for a deferred tax asset. As such the DOC no longer recommends inclusion in the cost of service of the entries that it had proposed the Surrebuttal Testimony of Nancy Campbell at page 78, lines 7 to 14. Instead, this approach reflects the alternative outlined in Nancy Campbell's Surrebuttal Testimony at page 78, lines 15 through 22.

Attachment 1

**Sample Tracking Balances**
**Utilization Of Tax Benefits**
**Annual Revenue Requirement Reduction**
**$ in Thousands**

| | | 2011 | | | 2012 | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **Rate Base** | **BOY** | **Annual** | **EOY** | **BOY** | **Annual** | **EOY** | **BOY** | **Annual** | **EOY** |
| (1) | DTA - Unused PTCs | (7,135) | (19,482) | (26,617) | (26,617) | (22,270) | (48,887) | (48,887) | 15,796 | (33,091) |
| (2) | DTA - Unused Deductions | (36,009) | (134,896) | (170,905) | (170,905) | 49,940 | (120,965) | (120,965) | 120,964 | (1) |
| (3) | Additional Bonus (Net) | 20,640 | 163,138 | 183,778 | 183,778 | 26,970 | 210,748 | 210,748 | (12,167) | 198,581 |
| (4) | Total Rate Base | 22,504 | (8,760) | 13,744 | 13,744 | (54,640) | (40,896) | (40,896) | (124,593) | (165,489) |
| (5) | Average Rate Base | | 18,124 | | | (13,576) | | | (103,193) | |
| (6) | PTC Utilization | - | - | - | - | - | - | - | (15,796) | (15,796) |
| (7) | Unused Deduction Utilization | - | - | - | - | (49,940) | (49,940) | (49,940) | (120,964) | (170,903) |
| (8) | Additional Bonus Utilization | - | - | - | - | - | - | - | 12,167 | 12,167 |
| (9) | Total Utilization | - | - | - | - | (49,940) | (49,940) | (49,940) | (124,593) | (174,532) |
| (10) | Average Rate Base of Utilization | | - | | | (24,970) | | | (112,238) | |
| (11) | Revenue Requirement Conversion | | 12.6% | | | 12.6% | | | 12.6% | |
| (12) | Annual Revenue Requirement | | $ - million | | | $ (3.1) million | | | $ (14 1) million | |
| | Composite Tax Rate | 40.8869% | | | | | | | | |

| | | 2014 | | | 2015 | | |
|---|---|---|---|---|---|---|---|
| | **Rate Base** | **BOY** | **Annual** | **EOY** | **BOY** | **Annual** | **EOY** |
| (1) | DTA - Unused PTCs | (33,091) | 33,091 | - | - | - | - |
| (2) | DTA - Unused Deductions | (1) | - | (1) | (1) | - | (1) |
| (3) | Additional Bonus (Net) | 198,581 | (30,491) | 168,090 | 168,090 | (24,667) | 143,423 |
| (4) | Total Rate Base | (165,489) | (2,600) | (168,089) | (168,089) | 24,667 | (143,422) |
| (5) | Average Rate Base | | (166,789) | | | (155,755) | |
| (6) | PTC Utilization | (15,796) | (33,091) | (48,887) | (48,887) | - | (48,887) |
| (7) | Unused Deduction Utilization | (170,903) | - | (170,903) | (170,903) | - | (170,903) |
| (8) | Additional Bonus Utilization | 12,167 | 30,491 | 42,658 | 42,658 | 24,667 | 67,325 |
| (9) | Total Utilization | (174,532) | (2,600) | (177,132) | (177,132) | 24,667 | (152,465) |
| (10) | Average Rate Base of Utilization | | (175,832) | | | (164,799) | |
| (11) | Revenue Requirement Conversion | | 12.6% | | | 12.6% | |
| (12) | Annual Revenue Requirement | | $ (22.2) million | | | $ (20.8) million | |
| | | | | | | | $ (60.2) million |